

# Tariff Rate Quotas in The EU

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The European Union has opened tariff rate quotas (TRQs) after the Uruguay Round (UR), following the agreement that minimum access should be provided and current access not be restricted. The EU TRQs are described and their origin is explained. Descriptive statistics are provided in order to assess the implementation of the market access provisions of the 1994 UR Agreement. Transparency of the EU TRQ system and fill rates of TRQs are examined. Overall, the EU's record in the area of TRQs is relatively satisfactory, compared with those of other countries. Concerns remain, however, as to the exact articulation of the (regional) Europe Agreement and some quotas under minimum access.

The 1994 Uruguay Round Agreement on Agriculture (URAA) resulted in an obligation to improve market access in agriculture for World Trade Organization (WTO) member countries, beyond the hoped-for effects of the scheduled reduction in tariffs. All countries were expected to allow access to their domestic markets for imports equivalent to at least 3% of domestic consumption in the 1986–1988 base period. This proportion was to rise to 5% at the end of the implementation period (i.e. in year 2001 in the European Union). These provisions are referred to as “minimum access.” In addition, the URAA agreed that preexisting market access had to be preserved. That is, access conditions for historically established import quantities would be maintained (a provision referred to as “current access”).

In the beginning of the implementation period (i.e. 1995), EU bound tariffs were too high for the EU to meet minimum access commitments without specific instruments. The scheduled 36% decrease in tariffs is unlikely to be sufficient for the EU to meet the commitments at the end of the implementation period. Final tariffs and special safeguard provisions will still provide significant protection to EU farmers in some sectors. Hence, for a number of products the EU opened up tariff rate quotas (TRQs) in order to meet the obligations of current access. When traditional imports did not represent

a sufficient percentage of domestic consumption, TRQs were applied so as to meet URAA minimum access commitments.

Several recent studies have suggested that TRQs resulted in little market access improvement in most of the 34 countries with TRQs in the official schedule that summarizes their WTO commitments as far as market access is concerned (USDA 1997; Pobury and Roberts 1999; OECD 1999). In most countries, TRQs have mainly been used to maintain traditional import flows but have not led to a large increase in trade. This can be explained by several factors:

- URAA commitments were based on the Modalities established by the WTO which were not incorporated as part of the UR final Agreement (see IATRC 1994). What countries actually agreed to was what they respectively submitted in their schedules, whether or not it reflected the application of the Modalities. As a result, the Modalities discipline was not always followed, and in practice, the measures implemented are not always in line with the spirit of the UR Agreement. For example, some countries calculated their TRQs in a way that was not consistent with the Modalities. The resulting TRQs do not always correspond to 3% of consumption. This also made it possible to minimize market access increases for most sensitive commodities.
- TRQs were often set for products characterized by tariff peaks, so that out-of-quota tariffs remain prohibitive. This *de facto* results in a larger number of quantitative restrictions to imports than before the Uruguay Round, even

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**Table 1. Number of Tariff Quotas by Product Categories**

	Grains Oilseeds	Sugar	Dairy	Meat		Eggs	Others	Total
				Poultry	Other			
EU	15	4	12	6	22	3	25	87
Canada	5	—	11	2	1	2	0	21
USA	3	6	24	—	1	—	20	54
WTO	339	50	183	249		21	528	1370

Source: from WTO and OJEC figures.

though the Agreement's purpose was to convert quantitative restrictions into tariffs through the so-called tariffication process.

- Commitments as well as management of TRQs lack transparency in many countries. This creates grey areas which allow some countries to get around some of the URAA disciplines. Of particular importance is the latitude given to (or taken by) countries to use different—and sometimes inconsistent—statistical classifications or to define products at a level of very fine detail restricting access to quotas for particular products from specific origins.
- TRQs under minimum access are not always allocated on a Most Favored Nation (MFN) basis as was specified in the Modalities. Countries have used existing freedom to fill not only current access but also sometimes minimum access TRQs with imports under preferential agreements. In such cases, only one or a very few countries are allowed access to the TRQ concerned and can take advantage of the new trade opportunities. Where this is the case, it considerably limits the scope of the current functioning of URAA in terms of trade liberalization. In some cases, quotas are allocated to countries which are unlikely to be able to export the relevant commodity. In other cases, tariffs under preferential agreements are lower than the in-quota MFN tariffs so that minimum access quotas are *de facto* filled with preferential imports from particular countries.
- Even though countries have to open their markets to imports at particular tariffs within the TRQs specified in their schedules, they are not required to import quantities corresponding to the TRQs. Because of the manner in which TRQs are administered only a small share of the TRQ quantities is sometimes actually imported. This translates to a low fill rate for many quotas.

In the following sections we assess the implementation of the URAA in the EU in comparison

with other developed countries. We first describe briefly TRQs in the EU. We then refer to a list of criteria in order to assess how the EU has implemented URAA commitments as far as TRQs are concerned relative to those in other OECD countries. We focus on the calculations of TRQs; on the tariffs for the commodities under TRQs; on the transparency of the system and notification procedure; on the allocation of import licences to specific countries; on the administration of TRQs; and on the observed fill rates.

### A Brief Description of EU TRQs

#### *Tariff Rate Quotas in the European Union*

The European Union established 85 TRQs in its schedule resulting from the Uruguay Round. An extra quota for grape juice and grape must (following negotiations under Article XXIV.6 of the GATT in the context of EU Northern enlargement) was added in September 1996. A quota for rum and taffia was added in July 1997, following the 1996 Singapore ministerial meeting agreement of the WTO. As a result, a total of 87 tariff rate quotas were incorporated in the commitments of the fifteen members in the EU, after Austria, Finland and Sweden had joined the Union. The precise description of these quotas can be found in the Official Journal of the European Communities (OJEC, 1999).<sup>1</sup> Table 1 shows the different categories of products covered by TRQs. It is, however, important to stress that the economic importance of the imports covered varies widely. For example, in some cases TRQ volumes are as little as 129 tons

<sup>1</sup> Note that in the official schedule, two quotas for corn and sorghum are officially part of the same tariff rate quota, which explains the widely quoted figure of 86 TRQs in the EU. See OJEC (1999) for details. The recent tariff quota allocated to the U.S. for malting barley (100,000 tons for years 1999 and 2000) is not part of the 87 TRQs listed above. Rather, it represents part of an agreement with the EU under WTO dispute settlement procedures after the U.S. challenged the reference price system for grains that deprived U.S. exporters of duty reductions on high-value grains agreed upon during the Uruguay Round.

of poultry, while other TRQs deal with 2 million tons of maize, 34,000 tons of tenderloins, or 2.2 million tons of bananas. Clearly, the number of TRQs *per se*, or average figures computed across TRQs, has little meaning.

### *Origin of the TRQs*

In the EU, most MFN tariffs were determined under the process of tariffification. That is, former measures such as variable levies were converted into tariffs. The tariffification process resulted in high base tariffs. TRQs were set either to preserve market access by ensuring that historical quantities continued to be treated under former access conditions, or to provide opportunities for additional imports so as to fill minimum market access obligations in spite of the high, sometimes prohibitive, MFN tariffs.

In the EU schedule, the TRQs have a clear origin. Forty-four quotas, representing a total of 155 tariff lines in the United Nations' harmonized system (HS) classification at the 8-digit level, were presented in the schedule under current access. A total of 37 tariff quotas representing roughly 160 tariff lines at the 8-digit level were presented under minimum access. Quotas for non-tariffed products include 6 quotas corresponding to 7 tariff lines at the 8-digit level, for fresh potatoes, carrots, turnips, sweet peppers, and almonds. They are also listed separately.

While current access quotas often apply to live animals, beef, fruits and vegetables, minimum access TRQs were mainly opened for meat, dairy products and grains. In general, the quotas under current access apply to larger import quantities than those under minimum access. For example, while current access quotas correspond to imports of roughly 430,000 tons of meat (not counting large imports of live animals), minimum access quotas for meat amount to a total of only 130,000 tons.

Some of the 87 TRQs originated from compensating third countries for access they used to have to the markets of Austria, Finland, and Sweden before these countries joined the EU. This is the case, for example, for TRQs on rice (70,000 tons), oats (10,000 tons), and poultry meat (700 tons). These are listed under minimum access in the EU schedule.<sup>2</sup> Other TRQs resulted from the bilateral settlement of earlier disputes. For example, the

1992 GATT oilseeds panel dispute was settled by the opening of 20,000 tons of beef, 15,500 tons of poultry meat, 500,000 tons of maize, and 300,000 tons of wheat, listed as TRQs under minimum access. Older agreements resulted in import quotas listed as TRQs under current access. This is the case in compensations granted to traditional exporters such as the United States (U.S.), for the accession of Spain to the single market (TRQ of 2 million tons of maize and 300,000 tons of sorghum).

Other TRQs resulted from bilateral arrangements that the EU had in the past concluded with individual exporting countries. This is the case for most TRQs listed under "current access." The reasons for these bilateral arrangements differ. Arrangements such as imports of high quality beef have led to allocate a TRQ of 37,800 tons to particular countries including the United States, Canada, Argentina, Australia, and New-Zealand. In some cases, past voluntary export restraint agreements were the historical source of TRQs now included in the EU's schedule. The export restraint agreement between the EU and Thailand, relating to Thailand's manioc exports to the EU, is one such case. The respective TRQ now requires the EU to charge no more than the tariff that existed under that prior bilateral agreement, on the quantity of imports set in that export restraint agreement. It should be noted that the EU did not open up any TRQs for products that had undergone tariffification and where no specific bilateral arrangements had existed in the past. This fact is noteworthy, as one could well have argued that the high EU tariffs that resulted from tariffification had, at least in some cases, the potential of obstructing imports that used to be shipped to the EU under variable levies before the Uruguay Round. Thus, to be on the safe side, some exporters could well have requested the EU to set up current access TRQs for tariffied products even in cases where no specific bilateral arrangements had existed in the past. However, the EU did not open up such TRQs, arguing that tariffs resulting from tariffification provided at least as favorable access to the EU market as respective non tariff measures had in the past.

### *Transparency of the EU TRQs*

Statistical classifications and definitions of products may strongly affect the practical scope of market access commitments under the URAA. For example, many countries have used very specific or even inconsistent statistical classifications of products under TRQs, which make monitoring of the implementation of market access cumbersome.

<sup>2</sup> In the WTO negotiations on compensation for EU enlargement, some other TRQs were also opened up, and tariffs were reduced on a number of products, see IATRC 1997.

Some countries have opened quotas using such precise definition of the products covered that they *de facto* restrict export rights to a particular country. Furthermore, changes in the classification and product definition during the implementation period of the URAA have made it possible to shift some sensitive commodities to a more protected tariff line. Transparency is therefore an important criterion in assessing URAA implementation.

The EU is one of the few countries that lists separately its minimum access quotas. This is particularly important because current access quotas are mainly a new shell for old preferential agreements. Because current access quotas are seldom open on an MFN basis, minimum access quotas may be considered the only ones that might lead to a genuine increase in market access. A separate listing of minimum access quotas, such as provided by the EU, makes it easier to assess the real impact of the URAA. The list of tariff rate quotas, the levels of imports, and the related tariffs are published in the Official Journal of the EU (OJEC) in a consistent classification, even though it imperfectly matches the classification used in the Schedules.<sup>3</sup>

The Modalities specified that market access commitments should be based on the 4-digit level of the HS classification. Very few countries have followed this guideline. In practice, TRQs were notified at the 8-digit level (in Europe, Canada, and the USA) and even at the 9 or 10-digit levels in some other countries. This narrows the range of products eligible, and therefore may restrict imports to a particular list of countries. In the EU, there are a few cases where the degree of detail in the definition of products raises questions (for example, a current access TRQ for live animal agreed upon with the country of origin, Switzerland, specifies the particular breed of the animal, information normally well-beyond the 8-digit level of the classification). However, it is noteworthy that while the definitions are sometimes very restrictive for current access quotas (which, anyway may be allocated to a particular country that has agreed to the specification chosen), this is not the case for minimum access quotas in the EU. For that reason, the statistical definition of the products can hardly

be seen as imposing hidden restrictions on imports, as is the case in some other countries (e.g., Korea, Japan, Brazil, and Thailand which have set quotas on the basis of the 9 or 10 digit-level of the HS).

The transparency of the notifications to the WTO has been questioned since the volume of imports that is notified by the EU corresponded to the volume specified in the licenses given to importers. The Committee for Agriculture of the WTO, has questioned the possible overestimation of quantities imported by the EU, should licenses not turn into actual imports. The EU claims that this is not the case, since a deposit is required from the importer. According to the EU, this makes it unlikely that a trading company would acquire a license and then choose not to import the product.

### TRQ Calculation

According to the Modalities, WTO countries had to offer a minimum access in 1995 equivalent to 3% of the average consumption between 1986 and 1988. However, some degree of freedom could be used in the exact calculation of the tariff quota for a particular commodity. Since the Modalities lost their legally binding value when the Schedules were adopted, the procedures used by some countries made it possible to limit the impact of the minimum access commitments.

Consumption statistics do not match the detail of trade statistics. Several countries chose to calculate the level of quotas as a percentage of consumption on aggregate commodities, and then to allocate this quota among the more detailed commodities, so as to set lower TRQ levels for the most sensitive products. Typically, the United States and Canada have used this procedure for dairy products. This "dirty quotification" may have resulted in a level of quotas below the actual 3% of consumption (see Doyle 1999, for the case of dairy products in the United States). The EU used a similar procedure for meat products. It calculated the overall quota at a rather aggregated level for the meat sector, and then allocated the quota across the various tariff lines in a somewhat arbitrary way. The allocation between the different categories of meat may not be the same as if the Modalities had been followed precisely (IATRC 1994). However, because of the rather large imports of bovines and beef under current access quotas and the increase in minimum access TRQs for pork during the implementation period, the overall EU TRQs for meat seem consistent with the 5% minimum access objective. This is also the case for other TRQs than meat. For wheat, for example, it is noteworthy that the EU implemented a TRQ corresponding to 5% of do-

<sup>3</sup> One of the explanations of the discrepancies in description and codes is that the OJEC refers to the new EU-15 commitments, while the original Schedule referred to EU-12. Second, there have been changes in the codes of the Nomenclature Combinée (the European version of the HS classification) used in the OJEC, but the EU continues to notify its WTO commitments in the former classification, so that actual policy can be compared to the original commitments. In addition, both codes imperfectly match the Geneva List of tariff lines used in the Schedule on bound (out-of-quota) tariffs.

mestic consumption in 1995 (the requirement was 3% at that time).

### *Most Significant Increases in EU Market Access*

Current access quotas, as well as those minimum access TRQs which correspond to compensation for EU enlargement, hardly correspond to new trade opportunities. Taking this into account, the examination of the EU TRQs suggests that the quotas have only led to a limited increase in access to the EU market. This is not specific to the EU: it is also the case for most WTO countries. The main impact of the URAA market access provisions are on those commodities for which large minimum access quotas have been set. In the EU, this is the case for corn, for durum and quality wheat (note, however that it resulted from the oilseed dispute settlement with the U.S. rather than from the URAA). It is also the case for cheese and skim milk powder, where most of the increases in EU market access are likely to occur. Large quotas were also opened in the pork and egg sectors, but these sectors experience little domestic support, and domestic production is likely to compete with imports.

### **In-Quota and Out-of-Quota Tariffs**

#### *The Setting of the Tariff*

In principle, a TRQ should provide access to imports thanks to a low in-quota tariff. It should therefore be less restrictive than a regular quota since exporting countries do not face a quantity constraint, but simply a higher out-of-quota tariff. In practice, however, out-of-quota tariffs often effectively exclude imports in excess of the quota in many countries. There are also cases where the in-quota tariff itself was set at a relatively high level, making it difficult even for in-quota imports to compete with domestic production (Podbury and Roberts 1999).

The Modalities set even less precise constraints on the level of tariffs for in-quota imports under minimum access requirements. The Modalities stated that tariffs should be "low or minimum," which left a lot of room for interpretation. In general, most WTO member countries have set in-quota tariffs as a percentage of the out-of-quota tariff. However, the percentage varies a lot across commodities and is often larger for the most sensitive commodities.

In the EU, the MFN (out-of-quotas) tariffs are expressed as a specific tariff (in Euros/ton, per hl

or per piece) or as an *ad valorem* tariff, or are sometimes a combination of both types of tariffs. Tariffs under current access TRQs are much lower than the respective out-of-quota tariffs. For example, the in-quota tariffs for live animals are designed so that the specific component of the out-of-quota tariff (which is by far the largest duty) is set to zero. As a result, imports under current access TRQs for meat products are subject to small tariffs (from zero for sheep meat to 20% for beef). Feedstuffs under current access TRQs also have very small tariffs (from zero to 7%) and refined sugar from African, Caribbean, and Pacific (ACP) countries enters with no duty into the EU. Butter from New Zealand still faces a significant tariff, although roughly half that of the out-of-quota tariff. On average, over the 50 quotas under current access and for non-tarified products, the in-quota tariff shows a reduction of 80% compared to the out-of quota tariff in the beginning of the implementation period (source: calculation by the authors on the basis of *ad valorem* equivalent tariffs). Since in-quota tariffs have remained unchanged during the implementation period, while out-of quota tariffs are scheduled to decrease, the gap is narrowing.

Overall, in 2001, current access tariff quotas will be roughly one third of out-of-quota tariffs for the commodities concerned. There is, however, some variation between commodities.

For TRQs under minimum access, the EU has applied a rather uniform reduction relative to the out-of-quota MFN tariff when setting in-quota tariffs. With the exception of quality beef, where no in-quota tariff is set but where it is specified that the rate has to be fixed by competent authorities so as to ensure that the quota will be filled, most of the in-quota tariffs have been set at 32% of the out-of quota MFN initial (base) tariff. The gap is much larger for high-quality meat, since meat is highly protected in the EU while it is subject to in-quota low tariffs. Other exceptions include milled rice, durum and wheat which are subject to a zero in-quota tariff. In the case of minimum access TRQs, the in-quota tariffs are also not scheduled to change during the implementation period of the URAA. Hence for these products, too, the gap is narrowing over time, and in-quota tariffs are close to 40% of the out-of-quota tariff at the end of the implementation period.

Compared with most other countries, where in-quota tariffs were set in a more arbitrary way, the EU procedure for minimum access TRQs is transparent, and shows that the "strategic" setting of tariffs across commodities so as to protect the most sensitive commodities has been very limited. This

**Table 2. In quota tariff, butter**

	In-quota tariff Currency/t	In-quota tariff US\$/ton
Canada	Cdn \$163/t	U.S. \$111/t
United States	U.S. \$123/t	U.S. \$123/t
European Union	Euro 948/t	U.S. \$1004/t

Source: WTO schedules, Doyle 1999.

is similar to the reduction rates chosen for tariffs that resulted from tariffication, where the EU has opted for a 36% reduction for nearly all products, and not less than 20% reduction in any single case. However, the procedure maintains the tariff dispersion that can be observed for out-of-quota tariffs. In particular, commodities for which the out-of-quota tariff is high still experience a significant in-quota tariff. The case of butter is typical in this regard. The in-quota tariff under minimum access is equivalent to Euro 948 per ton, which is much higher than the in-quota tariff in other countries (see table 2). Note, however, that this does not seem to be a prohibitive tariff, since the minimum access TRQ for butter has a fill rate close to 100%.

## Allocation of Import Licenses

### *Allocation of Quotas to Specific Countries*

In principle, quotas under minimum access should be allocated on a MFN basis, as specified in the Modalities. In practice, however, some countries display a lack of transparency concerning which quotas are under minimum and current access. The United States and Canada, for example, do not distinguish minimum access and current access and do not notify in-quota tariffs. It is therefore difficult to assess whether or not they have granted preferential in-quota tariffs to specific countries. In other cases, the setting of in-quota tariffs at a level higher than regular tariffs under preferential agreements results in a *de facto* allocation of quota to a preferentially treated (often neighboring) country. This also often takes place with little transparency.

As far as trade liberalization is concerned, it makes a lot of difference whether a particular quota is open on a MFN basis, or whether access to this quota is restricted to, say, one particular country. In practice, country-specific allocation is used either to prevent access or to achieve reciprocal benefits on a bilateral basis. In addition, the possibility to allocate quotas to a particular country may result in low imports under this quota. Indeed,

quotas are sometimes allocated to countries that are unlikely to be able to export a particular commodity (see Doyle 1999, for the case of the U.S. TRQ for ice cream allocated to Jamaica). Administrative procedures often make reallocation of such unfilled quotas to other would-be exporters difficult. Preferential allocation of TRQs to particular countries is therefore an important issue for assessing the implementation of URAA market access provisions.

In the EU most quotas under current access result from old preferential agreements, and many of them are allowed on a preferential basis. Out of 44 current access TRQs, 17 are allocated to a particular list of countries. This includes some non-WTO member countries, such as the People's Republic of China. Several quotas are preallocated to Central and Eastern European Countries (CEECs) associated with the European Union. Some quotas are also allocated to ACP countries which benefit from a preferential agreement. This is the case particularly with quotas for sheep, goats, mushrooms, of a 1.2 million ton quota for sugar, and a granted share of the quota for bananas. Access to some tariff rate quotas is restricted to the U.S., Australia, Uruguay, New Zealand, Chile, Indonesia, Thailand, India, Iceland, and Greenland. In some cases, the entire quota is preallocated to a particular country (New-Zealand in the case of EU imports of butter).

In the EU, quotas under minimum access are administered on a MFN basis and are therefore not allocated to a particular country. However, quotas on rice can be considered an exception, because the administrative conditions for the allocation of licenses discriminate between countries. In the case of rice, the administrative procedures (export licenses) result in allocating imports to Thailand and Australia. As part of the concessions made to the United States as compensation for the accession of Finland, Austria, and Sweden to the EU, the EU agreed to implement tariff rate quotas (TRQ) for imports from the U.S. of 38,700 tons of milled rice with zero duty and 7,600 tons of brown rice (The new 100,000 ton quota for malting barley with a 50% tariff reduction, which is not part of the EU schedule, is also allocated to the U.S.).

A controversy exists regarding the actual allocation on a MFN basis of some other EU minimum access quotas. The EU Schedule states that for 18 out of the 35 quotas under minimum access, the EU may count against quota the preferential imports from CEECs under the so-called Europe Agreement (concluded with countries that are expected to join the EU in the near future). This is the case for pork (5 quotas), poultry (3 quotas), dairy

**Table 3. Number of TRQs Administered According to a Particular Procedure (1997)**

	LoD	His	FCFS	ST	PG	AU	AT	Mixed or non specified	Total
EU	44	20	21	—	—	—	—	2	87
Canada	5	6	7	1	—	—	—	2	21
Korea	4	—	21	10	4	5	2	21	67
Israel	2	1	1	—	—	—	2	6	12
Japan	—	12	—	4	1	—	—	3	20
Mexico	—	1	—	—	—	—	10	—	11
Switzerland	—	—	—	—	—	—	—	—	28
Thailand	10	3	2	—	5	1	2	1	23
USA	1	—	27	—	—	—	—	26	54

LoD: Licenses on demand, on the basis of quantity requested, uniform reduction if the sum of requests exceeds TRQ; His: allocated to historical importers; FCFS: First-come-first served; ST: Licenses allocated to state owned importer; PG: Licenses allocated to producers' organization; AU: Auction; AT: Applied tariff (unlimited imports, TRQ notified but not enforced); Mixed: includes lottery in the USA.

products (7 quotas), and processed eggs (3 quotas). The EU Schedule does not specify the quantities under quota that would be allocated or the eligible countries. The EU is suspected to grant lower tariffs to CEECs than the regular in-quota tariffs. The U.S. Department of Agriculture claims that this allows the CEECs to capture a disproportionate share of the minimum access TRQs, and reap most of the benefits of improved market access, especially for pork, poultry and, to a lesser extent, skim milk powder (USDA 1997). The EU claims the opposite, and that the corresponding MFN in-quota tariffs were reduced to the same level as those under the Europe Agreement. The issue was raised officially by the U.S. during the November 1998 meeting of the Committee of Agriculture. The EU responded that imports under European agreements are counted in the tariff quotas only when the tariff under the preferential agreement was identical to the in-quota tariff and that there was no other case in which preferential imports had been counted against the quota (national statistics on applied tariffs in Germany show that the in-quota tariffs on live animal imports from third countries were lowered to the level charged on imports from the Central European countries, supporting the EU Commission's claim).

## Management of Import Licenses

### *Allocation Method*

In the EU, the management of tariff quotas, with the exception of the quota for rice and cassava, has not raised many controversies. Tariff quotas are allocated using mainly three methods: allocation as a proportion of licenses requested; allocation to traditional importers; and the first-come, first-

served procedure, depending on the quota. Though these procedures are not at all ideal from the point of view of economic theory, most economists find that they do at least not discriminate explicitly among exporting countries (see Podbury and Roberts 1999; OECD 1999). Table 3 shows EU management procedures in comparison with those used by other developed countries. The pros and cons of each particular method are described in detail in OECD (1999).

The three methods of tariff quota allocation are described below:

- *Licenses as a function of quantities requested.* With this method, licenses are granted on demand, until they exceed available quantities. The allocation of licenses can be the responsibility of the EU Commission, as it is the case for fruits (cherries, apricots, oranges, lemons) or of member states of the EU. National governments indicate to the Commission the number of requests and the quantities requested. If the sum of the import licenses exceeds the level of TRQ, the Commission reduces proportionally the level of each license. Under this system, conditions for entry are known, which provides a degree of certainty to importers regarding the precise tariffs and entry requirements. This procedure is not used for all TRQs because, according to the EU, it would result in excessively low quantities attributed to individual importers when demand is much larger than available quantities.
- *Allocation to traditional importers.* For some quotas, as under current access, import licenses are given to traditional importers. This has the advantage of maintaining established contacts and preventing speculators from winning control of licenses, but may result in ir-

gilities in the market. In order to open access to the market to newcomers, a share of the quota is reserved to new importers in the EU. For live cattle, for example, 20% of the quota is allocated to newcomers, the rest to traditional importers. This provision also exists for the quotas of beef, bananas, mushrooms, wheat, skim milk powder, and butter.

- *First come-first served.* For four quotas (offals, live sheep and potatoes) no rule exists for allocating licenses in the EU. Instead, licenses are granted to the importer by order of request, even though these quotas are allocated to a predetermined list of countries. The advantage of this method is that it reduces the odds of creating vested interests, compared with a licensing system. However, it may encourage concentration and seasonality of imports.

No quotas are allocated through state monopoly and producers' organizations. Two quotas are managed by a mixed procedure by WTO standards. In these cases, the share of the quota which is pre-allocated to a given list of countries, is managed on a first-come, first-served basis, while the other share of quota (i.e., MFN) is managed on the basis of import licenses.

#### *Administrative Restrictions*

Management of quotas sometimes involves additional requirements from importers (and sometimes exporters) in order to allocate licenses. For example, to import live cattle, beef, corn, rice, or wheat, importers must be registered in the Value Added Tax system of one member state. In a few cases (some beef offals), imports are allowed only for processing. Grape juice can be imported only if it goes for products other than wine. Importers of raw cane sugar must process it before the first of July and must themselves be refiners. In some cases, authorities of the exporting country must provide a certificate of authenticity of the product. In the case of cane sugar, a certificate of origin is required. Finally, would-be importers of rice, corn, millet, durum, or oats must show that they have traded this commodity within the previous twelve months; for eggs, applicants must have imported at least 50 tons of egg products during each of the previous two years (similar conditions exist for turkey meat). In the cases of cassava and rice, export licenses are required from some countries (Indonesia, in the case of cassava; Thailand and Australia in the case of rice).

#### *Validity of Licenses*

For 59 out of the 87 tariff quotas, import licenses have a limited validity. Such a restriction also exists in many countries, including Canada. In the EU, imports must take place within a few months, but license validity is shorter in some cases. This restriction could raise problems for imports from remote countries. For example import licenses for wheat and durum are valid for seven days, sugar for thirty days, representing potential administrative obstacles to imports. Such provisions have been questioned within the WTO Committee for Agriculture. The EU claims that the system is designed to avoid excess subscription to tariff quotas; that, even for wheat, importers have in fact a 45-day delay between the subscription to an import license and its expiration; and that the tariff rate quotas in question have been fully utilized (June 1997 meeting).

#### *Fill Rates*

The fill rate expresses actual imports as a percentage of the TRQ volume concerned. Fill rates can be seen as an ex-post check of the way countries have implemented the market access commitments of the URAA. However, the fill rate is an ambiguous indicator, since a low fill rate can be explained by market forces. One should keep in mind that if domestic products are competitive, if the in-quota tariff is prohibitive, or if there is no demand for the product, the fill rate may be low in spite of the absence of restrictive quota management practices (Boughner and de Gorter 1998).

#### *Current Access Quotas*

The fill rate of quotas under current access is, on average, 73% in the EU (table 4). Averages are, however, of little meaning, because of the presence of very small quotas in the list. It is necessary to focus on the large quotas in order to have a better

**Table 4. Fill Rates of TRQs, 1995–97**  
**Average (Minimum and Current Access)**

	Rate 1995	Rate 1996	Rate 1997	Average 1995–97
EU	75%	71%	73%	73%
WTO Members <sup>i</sup>	65%	63%	46%	58%
Canada	78%	85%	83%	82%
Japan	70%	71%	70%	70%
USA	48%	53%	56%	52%
Korea	78%	76%	76%	77%

(i): countries notifying TRQs.

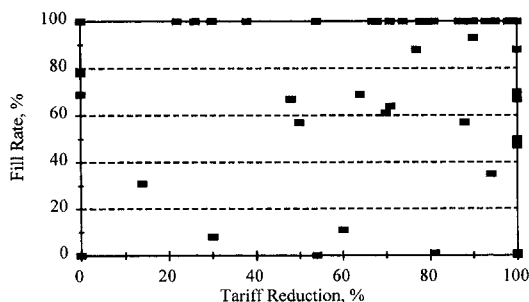


image of the fill rate. Sixteen of the EU's 44 quotas under current access had a fill rate lower than 85% in 1997. TRQs for live animals were close to being fully utilized: The main quota (169,000 heads of live young cattle for fattening) was filled at 100%. Current access quotas for beef (roughly 140,000 tons) are almost entirely filled, even though imports from the United States were temporarily suspended in 1999 because of the finding of hormone residues. The large quota of sheep meat (283,000 tons) was filled up to 88% in 1997, but the quota for live sheep and goats filled only to 64%.

The main quota for dairy products is 72,000 tons of butter allocated to New Zealand. The EU argued that there was a problem of product definition (the quarrel between New Zealand and the EU on the treatment of spreadable butter has now been settled, but the WTO has yet to be notified of the fill rate). Quotas for cheddar and cheese for processing allocated to New Zealand and Australia have been almost entirely filled.

Lower fill rates are those observed for feedstuffs. The 5.5 million ton-quota for cassava, allocated to Thailand, and the 600,000 tons of sweet potatoes allocated to China show low fill rates. So do the 135,000 tons of arrow root and manioc TRQ, allocated to China and other non WTO countries, and the 135,000 ton quota for bran. The main reason for these low fill rates, according to the EU, is several years of common agricultural policy reforms: significant cuts of EU support prices for cereals under the MacSharry reform have made imports of feedstuffs, that in the past were used as cereal substitutes, less in demand. This is reflected in the large shift in consumption from imported grains substitutes such as corn gluten feed to domestic grains in the EU over the last few years, in spite of the low tariffs for grain substitutes. In addition, the main suppliers of cassava are themselves becoming larger users, or find increasing demand in neighboring countries. This is also the case in China, where domestic demand absorbs the supply of sweet potatoes and arrowroot. The large quotas for maize (3 million tons) and sorghum (300,000 tons) were only utilized at 70% in 1997, in spite of a variable tariff that was supposed to be adjusted so as to ensure that the quota would be filled (note that imports of sorghum far exceeded the quota in 1996). The quotas that correspond to non-tariffed products are in general very small, with the exception of almonds (90,000 tons), which is fully utilized.

There appears to be no obvious relationship between the rate by which the within-quota tariff is reduced relative to the over-quota tariff and quota fill as shown in figure 1.



Note that 6 TRQs for non-tariffed products are included in this figure.

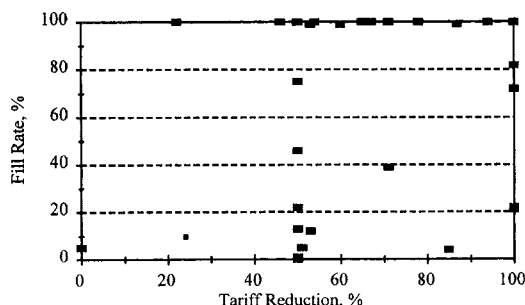
**Figure 1. Quota Fill and Tariff Reduction for 50 TRQs under Current Access in the EU**

### *Minimum Access Quotas*

The fill rate of quotas under minimum access in the EU is 74%. Again, an arithmetic average must be interpreted with caution, given the considerable heterogeneity of the different quotas. The quota for rum and taffia, for example, has a very low fill rate, in particular because the last available figures refer to 1997, when the quota had just begun to be implemented. Overall, fourteen of them have a fill rate lower than 85%.

The three quotas (roughly 20,000 tons) of high quality beef are fully utilized. So are the quotas of poultry cuts (30,000 tons). The quota for skim milk powder (40,000 tons) are the various quotas making up a total of 15,000 tons of cheese are also fully utilized. The different quotas for pork are among the most underutilized. The reason, according to the EU, is low demand from the industry for imports, especially in processed products (sausages) because of the competitive EU's production. One indication of this is that most of pork exports (65% in 1997) are shipped without subsidies. The quota for eggs for consumption shows a fill rate as little as 1%. Again, the EU explains this situation by market conditions, and points out the 100% utilization of the quota for egg yolks and eggs not in shell. The egg albumin quota is only filled up to 46%.

Minimum access quotas for grains includes a 500,000-ton quota for maize, a quota for husked rice (20,000 tons) and for milled rice (63,000 tons) and a quota for quality wheat (300,000 tons) which are completely utilized in 1998. Note that, in some cases, fill rates are below 100% with actual imports having been above TRQ volumes. An explanation is that the administrative procedure for accessing imports under quotas is complicated and involves significant costs. In some cases where the differ-



Note that 6 TRQs for non-tariffed products are included in this figure.

**Figure 2. Quota Fill and Tariff Reduction for 37 TRQs under Minimum Access in the EU**

ence between the in-quota and out-of-quota tariff is limited, importers choose a simpler administrative procedure over a lower tariff.

In the case of the EU's minimum access quotas, the relationship between the rate of tariff reduction and quota fill, as shown in figure 2, suggests the tendency that the lower the in-quota tariff is relative to the above-quota tariff, the higher the quota fill.

## Conclusion

The EU, like many other WTO member countries, opened a large number (87) of TRQs after the Uruguay Round, following the agreement laid down in the Modalities that minimum access should be provided and that current access (i.e., access that existed before the Uruguay Round) not be restricted. Unlike those of nearly all other countries, quotas in the EU's Schedule are clearly categorized as minimum access or current access TRQs, providing transparency in this regard. Roughly two fifths of the EU's TRQs come under current access, usually providing continued access, on a bilateral basis, for exporters who in the past enjoyed preferential access to the EU or who had low or zero tariff access to EU markets for the products concerned under voluntary restraint agreements. As far as quantities are concerned, the EU's current access quotas tend to be much larger than those opened under minimum access.

In establishing the TRQs, it appears that the EU has not deviated from fundamental rules in the Modalities. As in many other countries, there was a bit of "dirty quotification" in the EU, both in terms of product specification and the calculation of minimum access quantities based on domestic consumption.

In the EU, the relationship between within-quota tariffs and above-quota tariffs differs greatly between current and minimum access. Under current access, in-quota tariffs as percentages of above-quota tariffs vary widely across products, because the individual TRQs reflect their historical origins and, hence, the (usually) low levels of protection that the EU had historically agreed on with the exporting countries concerned. For most minimum access TRQs, on the other hand, the EU has set in-quota tariffs at a universal percentage (32%) of out-of-quota tariffs, and has not distinguished between less and more sensitive products. For both current and minimum access quotas, within-quota tariffs remained constant during the URAA implementation period, so that over time they have risen relative to the declining over-quota tariffs.

In administering license allocation under the TRQs, the EU has not been particularly inventive, neither in using approaches that make it difficult to import the products concerned or in coming up with innovative approaches or methods, such as auctioning, that are economically more convincing than the other, more frequently used, approaches.

Fill rates of TRQs in the EU have been reasonably high and have increased over time. It is interesting to note that some of the larger current-access quotas have exhibited relatively low fill rates, more so than have minimum access quotas. This was particularly the case with current access quotas for feedstuffs that in the past were used as cereal substitutes in the EU. With the significant cut in EU cereal support prices, it cannot come as a surprise that import demand for these feedstuffs has declined noticeably. As far as we can see, no case has been identified in which the EU has deliberately used quota management procedures to make access to its markets more cumbersome than it will always be under a TRQ regime.

Overall, it appears that the EU has played a reasonably fair game as far as TRQs are concerned. Concerns do remain, though, as to the exact articulation of the Europe Agreement and the quotas under minimum access. The EU has indicated in its schedule that imports under the (preferential) Europe Agreement could be counted against certain quotas. Even though this provision is used when preferential tariffs under the Europe Agreement and in-quota (MFN) tariffs are similar, other countries fear that this could result in CEECs taking greater advantage of the EU increase in market access under the minimum access provisions.

It is still difficult to make an assessment of the actual increase in access to the EU market that has resulted from the URAA. The scheduled decrease in tariff is still being implemented, some statistics

have yet to be published, and because of short run fluctuations of world prices, one needs a few more years for assessing changes in imports flows. However, it is very likely that most of the increase in access to the EU market has resulted from the setting of minimum access TRQs. The 36% cut in bound tariff has mainly resulted in squeezing out the original water in tariffs that resulted from the so-called dirty tariffication process (see IATRC 1997). Future cuts in bound tariffs are likely to have a significant impact on trade flows but, so far, it is the TRQ system that has resulted in the most significant increase in EU imports. One explanation is that, while tariff cuts have been implemented progressively, the EU has set TRQs so that market access represents 5% of consumption several years before the end of the implementation period of the URAA. Even though several TRQs were only partially filled during the first years, they now lead to significant increases in imports in the cheese, grain and beef sectors (for example, the 300,000 tonne quota for quality wheat showed only a 30% fill rate in 1997 but this quota was entirely filled in 1998).

For the next round of WTO negotiations, an interesting question is which approach might work best to liberalize trade under the EU's TRQs: reductions of in-quota tariffs or an expansion of quota volumes. Clearly, this differs from product to product. However, as a general rough rule it would appear that an expansion of quota volumes is likely to achieve more than a reduction of in-quota tariffs. In most cases where fill rates are low in the EU this appears to be the case not because in-quota tariffs are high but because import demand is limited on EU markets, probably even at lower tariffs. As a matter of fact, in several cases low fill rates coincide with low or even zero in-quota tariffs (e.g. worked oats, with zero in-quota tariff but a fill rate of only 22% in 1997). In such cases, neither large quota volumes nor lower in-quota tariffs would make imports grow. Contrari-

wise, where TRQs are fully used, only an expansion of quota volumes can help to liberalize trade, while a reduction of in-quota tariffs would do no more than to raise rents which anyhow tend to flow to EU-based traders. Hence, for the EU's negotiating partners it may be best, in the next WTO round, to concentrate on an expansion of TRQ volumes.

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